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Krugman: Economic Crisis a Question of When, Not If

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By Pedro Nicolaci da Costa

NEW YORK (Reuters) - The economic policies of President Bush have set the country on a dangerous course that will likely end in crisis, Princeton economics professor Paul Krugman told Reuters in an interview.

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Krugman, who may be best known for his opinion column in The New York Times, said he was concerned that Bush's electoral victory over Sen. John Kerry earlier this month would only reinforce the administration's unwillingness to listen to dissenting opinions.

That, in turn, could spell serious trouble for the U.S. economy, which under Bush's first term was plagued by soaring deficits, waning investor confidence and anemic job creation.

"This is a group of people who don't believe that any of the rules really apply," said Krugman. "They are utterly irresponsible."

Krugman is currently taking some time off from journalism to write and promote the second installment of his latest project -- economics textbooks aimed at making the science more accessible to college students.

In the meantime, however, he worries the Bush administration's fiscal policies are going to push the world's largest economy into a rut.

The most immediate worry for Krugman is that Bush will simultaneously push through more tax cuts and try to privatize social security, ignoring a chorus of economic thinkers who caution against such measures.

"If you go back and you look at the sources of the blow-up of Argentine debt during the 1990s, one little-appreciated thing is that social security privatization was a important source of that expansion of debt," said Krugman.

In 2001, Argentina finally defaulted on an estimated \$100 billion in debt, the largest such event in modern economic history.

BANANA REPUBLIC?

"So if you ask the question do we look like Argentina, the answer is a whole lot more than anyone is quite willing to admit at this point. We've become a banana republic." [Continued ...](#)

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Crisis might take many forms, he said, but one key concern is the prospect that Asian central banks may lose their appetite for U.S. government debt, which has so far allowed the United States to finance its twin deficits.

A deeper plunge in the already battered U.S. dollar is another possible route to crisis, the professor said.

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The absence of any mention of currencies in a communique from the Group of 20 rich and emerging market countries this past weekend only reinforced investors' perception that the United States, while saying it promotes a strong dollar, is willing to let its currency slide further.

"The break can come either from the Reserve Bank of China deciding it has enough dollars, thank you, or from private investors saying 'I'm going to take a speculative bet on a dollar plunge,' which then ends up being a self-fulfilling prophecy," Krugman opined. "Both scenarios are pretty unnerving."

In the longer-term, Bush's version of social security reform, which Krugman says would relegate pensions for the elderly to the whims of volatile financial markets, could have wide-ranging implications for future generations.

The only bright spot in having Bush in power for another four years, said Krugman, is that further economic mismanagement might trigger some sort of popular outcry.

"I do believe at some point there is going to be a popular tidal wave against what has happened," concluded Krugman. "In the meantime, you keep banging on the drum, you keep telling the truth."

"And then eventually we have the great demonstrations, which I think are important to let the government know that many Americans are not happy with what is happening," he said.

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